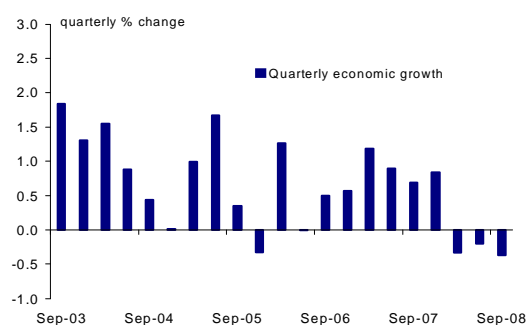




ECONOMIC GROWTH – SEPTEMBER 2008 QUARTER

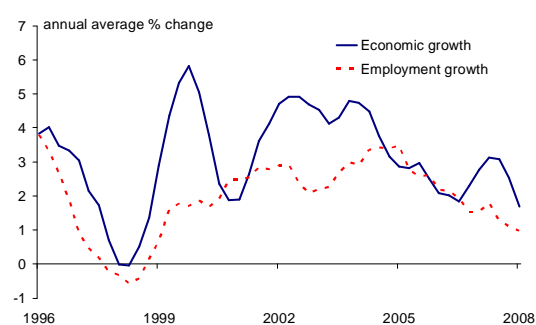
- 1 Economic activity declined by 0.4% in the September 2008 quarter, slightly better than market expectations of a 0.5% fall. Real GDP has now fallen for three consecutive quarters, the first time it has done so since the Asian Financial Crisis in 1997/98. Annual average economic growth was 1.7% in the year to September 2008, down from 2.5% in the year to June 2008.
- 2 The fall in output over the September 2008 quarter was felt across a range of industries. The slowdown in the housing market continued to affect construction activity (down 1.2%) which was driven by a fall in residential construction. Manufacturing activity declined strongly (down 2.5%) due to weak domestic demand and high electricity prices. Consumer spending fell by 0.2% causing output in the retail, accommodation and restaurants industry to decrease by 1.2%. A fall in output was also recorded in transport and communication (down 1.4%) and wholesale trade (down 1.8%). On the positive side, there was a rebound in activity in agriculture (up 6.0%) and electricity, gas and water supply (up 5.1%) as both industries recovered from last summer's drought.

Fig 1: Quarterly Economic Growth



Source: Statistics New Zealand

Fig 2: Economic and Employment Growth



Source: Statistics New Zealand

- 3 Economy-wide labour productivity (GDP per hour worked) rose by 1.7% in the year to September 2008. This represents an easing from 2.6% in the year to June 2008 although it remains slightly higher than the average of the last ten years of 1.5% per annum. Official productivity figures for the measured sector of the economy are due for release in March 2009.
- 4 Despite factors such as tax cuts and lower fuel prices providing stimulus to the economy in the December 2008 quarter, the average expectation in the latest NZIER Consensus Forecasts is for GDP to be flat over the quarter. Looking further ahead, economic growth is anticipated to be weak over 2009 as New Zealand is affected by the global financial crisis. The National Bank Business Outlook for December 2008 showed a net 22% of firms expected their own activity to decline in the year ahead, the worst figure recorded since the survey began in 1988. The average expectation in the NZIER Consensus Forecasts is for GDP growth to be only 0.9% in the year to March 2010 before rising to 3.0% in the March 2011 year.
- 5 As a result of the weak economic outlook over the next year, we expect the unemployment rate to rise to around 6.0% by March 2010. However, there is much uncertainty about how the global financial crisis will impact on the New Zealand economy and there continues to be considerable downside risks to the outlook for the labour market. The Household Labour Force Survey data for the December 2008 quarter is released on February 5, 2009.